

TREASURY DEPARTMENT
Washington

STATEMENT BY SECRETARY OF THE TREASURY ROBERT B. ANDERSON
BEFORE THE HOUSE POST OFFICE AND CIVIL SERVICE COMMITTEE
ON H. R. 9883 AND SIMILAR BILLS, WEDNESDAY, APRIL 27, 1960,
10:00 A. M., EDT. *Delivered by Under Secretary Fred C.
Scribner, Jr.*

Mr. Chairman:

I am grateful for this opportunity to present the views of the Treasury Department on the pending bills which would provide for general increases in pay rates for Federal workers under the Postal Pay Act and the Classification Act.

It is our understanding that the bills under consideration would increase salaries for the two main groups of employees involved by as much as 27 percent in the case of some employees under the Postal Field Service schedule, and by as much as 24 percent in the case of some employees under the Classification Act. In addition, there would be other increases involved by virtue of other provisions of the bills, such as those relating to step increases and longevity steps. The total annual cost resulting from enactment of H. R. 9883 has been estimated by the Bureau of the Budget as \$1.6 billion, with an average increase of 20 percent in the current \$8.4 billion payroll under the statutory pay systems involved. The Bureau has also estimated that the retroactive date of January 1, 1960, provided in H. R. 9883, would mean an added cost of about \$800 million in the current fiscal year. These estimates do not take into consideration any additional costs that such legislation might trigger for increases in pay rates for

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other Federal civilian employees, military personnel, or retired employees, military as well as civilian.

Mr. Chairman, the Treasury Department is most sympathetic with the legitimate aspirations of Federal employees for compensation and benefits reasonably competitive with industrial compensation and benefits at all but the highest levels.

Certainly, Federal employees have a right to expect fair treatment with regard to compensation. However, it is clear that before salary legislation is enacted, the Congress should have the benefit of an accurate national survey to provide a sound basis for salary action. It is my understanding that such a survey is under way by the Department of Labor and that the results will be available this fall.

I am convinced that the so-called fringe benefits offered by the Government are already most liberal, especially the retirement and the annual, sick, and military leave provisions. Other witnesses representing the Administration have commented on the advisability of Federal pay increases at the present time from the standpoint of equity in compensation relative to employment outside of the Federal Government. My comments will be confined to the impact of a Federal pay increase at this time on our efforts to maintain fiscal discipline.

In this respect, there is a vital aspect of our free society that we must keep constantly in mind: a government can do none of the things which are necessary and desirable for a sustained period unless such actions are supported by a sound economy. Governments and individuals are alike in this. Neither should undertake what may

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seem to be exceedingly desirable actions, if by so doing the soundness of the nation's economic health -- or of the individual's financial health -- is undermined.

What are the sinews of economic strength in an economy so huge and complex as ours? They include a high level of economic activity; adequate and rewarding employment opportunities for those of our citizens able, willing, and seeking to work; and reasonable stability in the purchasing power of our money. These goals are not easy to achieve, but achieve them we must if this Nation is to continue to prosper, and if we are to fulfill our responsibilities as a leader in the free world.

Today our economy is prosperous; the outlook is indeed encouraging. Past experience points to the fact that, under such conditions, we must be especially careful to pursue the prudent policies that will contain the inflationary pressures which always lurk just beneath the surface in a prosperous economy. But if we fail in this respect, and permit inflation to occur, we shall not only disrupt our domestic economy, but we shall also impair the efficient functioning of the entire international economy, which depends so heavily on the anchor of a sound and stable American dollar.

There is no simple, all-embracing solution to the problem of avoiding inflation; its causes, in a free choice society, are manifold and complex. Still, of one thing we can be certain: the battle to protect the value of the dollar will surely be lost if we do not maintain constant discipline in Federal fiscal operations. This means, in good times, a surplus in the Federal budget.

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Why is the attainment of a surplus so important? There are many good and compelling reasons. The excess of Federal revenues over spending which a surplus represents --

- provides an important balance to help offset an excessively rapid upsurge in spending in the private economy
- facilitates management of our huge national debt, because the Federal Government becomes a net repayer of debt rather than a borrower
- reduce the interest burden on the debt, because interest payments decline as the debt declines
- provides an important example that will foster prudent decisions in the private sector of the economy
- promotes confidence in the dollar both at home and abroad by providing a convincing demonstration of the determination of this Nation to maintain fiscal discipline.

The American people have come to realize the crucial importance of achieving a surplus in the Federal budget during periods of strong business activity; this recognition has been reflected in the determined efforts of the Administration and the Congress to achieve a balanced budget for this fiscal year and a meaningful surplus for fiscal year 1961. The progress that has been made toward achieving a balanced budget this year has not been easy. It will be recalled that in fiscal year 1959, ended last June, Federal budget expenditures exceeded revenues by \$12-1/2 billion -- a peacetime record. There were many who believed that it would be impossible to move so quickly to a balanced position and provide the basis for a surplus in the following year. This belief was an important factor in stimulating inflationary expectations in the latter part of 1958

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and 1959 -- expectations that severely complicated Treasury debt management and threatened to give rise to a speculative, unsustainable upsurge in business activity.

Now that this massive and important shift in the Government's budget position has been achieved, it would be unfortunate indeed if additional expenditures were permitted to destroy the balance which we are striving to maintain in this fiscal year. The balance is already in jeopardy, because of a lower than expected level of corporate tax receipts (reflecting a small over-estimate of corporate profits for calendar year 1959), but the prospects are favorable for holding spending to an amount equal to the somewhat smaller revenues.

If legislation such as H. R. 9833 were enacted, however, the balance in the budget for this fiscal year would be irretrievably lost. Moreover, the surplus expected for fiscal year 1961 would be sharply reduced, reflecting the full-year impact of more than \$1.6 billion in additional expenditures provided for in the bill.

If, as a result of new legislation providing for additional expenditures, the balanced budget for this year is lost and next year's surplus is substantially reduced or eliminated, people everywhere can rightly question whether we ever intend to put our fiscal affairs in order. Failure to maintain fiscal discipline at this time would represent a resounding defeat in this Nation's efforts to maintain a good, stable currency as the bedrock of a healthy and expanding economy.

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The 1960's hold great promise for the American people and the free nations of the world. But our efforts to provide for adequate defense to deter aggression, and to promote better living conditions for freedom-loving people everywhere, can be severely weakened if we fail to follow the clearly charted path of fiscal discipline and responsibility. Gratifying progress has been made during the past 18 months. We can continue to move forward in the future, but only if we dedicate ourselves to a continuation of the sound Government financial policies that are an indispensable element in the strength of a truly free society.

In conclusion, it is important to emphasize that any pay increases in Government or elsewhere must be based upon a dollar of stable purchasing power if they are to be meaningful. But if unsound financial policies are permitted to reduce the value of the dollar, such increases can be self-defeating. Thus, in the interest of prudent fiscal management, as well as the protection of the real buying power of employees' salaries in Government and elsewhere, legislation such as H. R. 9883 and the other pending bills providing for Federal pay increases should not be passed at this time.

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